



BUWAL Bundesamt für Umwelt, Wald und Landschaft
 OFEFP Office fédéral de l'environnement, des forêts et du paysage
 UFAPP Ufficio federale dell'ambiente, delle foreste e del paesaggio
 SAEFL Swiss Agency for the Environment, Forests and Landscape

State Secretary

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Performance-based resource allocation framework for the GEF

Dear Mr. Good,

Following the GEF-Seminar on PBA in Paris, I would like to clarify the position of the Swiss Constituency at the GEF in regard to the proposed Options 1 and 2 as contained in the revised paper of 9 August 2004. I also want to outline a possible alternative strategy for a more feasible PBA-system.

While ready to consider any sensible performance-enhancing measures for the GEF, it is by no means mandatory for us that a PBA system must be based on a multi-year ex-ante allocation of all available resources among all recipient countries. It can also be based on standardized performance criteria to be utilized in a systematic manner in the allocation of GEF resources to proposed projects. Such a system could be further refined over time in a participatory manner, allowing it to gain broad legitimacy and acceptance.

Unresolved issues

The Paris Seminar served to identify a very large number of unresolved issues and major weaknesses in the ex-ante PBA-scheme contained in Options 1 and 2. At this juncture, it is clear to us that the next Council Meeting will foreseeably not be in a position to adopt either option, nor any blend of the two. We reject the notion that previous decisions by the Council, the Replenishment Participants Meeting, and the Second GEF Assembly are forcing the November 2004 Council to adopt a specific kind of PBA-system for the GEF. The Council is dutifully acting on all relevant previous decisions and recommendations. Currently, we are engaged in a process to determine the best course of action on PBA. A final decision should be taken only when this process is concluded. It is important to note that none of the previous decisions are mandating Council to adopt a PBA in which all recipient countries receive ex-ante resource envelopes over four years for the local areas of climate change and biodiversity.

The following list of issues must be resolved before any final Council decision to introduce PBA:

- It is inconceivable that all GEF recipient countries be ranked individually or into groups for the purpose of ex-ante allocation, as long as the **problem of country eligibility remains unresolved**. Under the current options 1 and 2, some of the still GEF-eligible new EU member

states may unintendedly receive ex-ante allocations that vastly exceed their historic allocations. On the other hand there are also clear dangers under present proposals that PBA erects barriers for new entrants into GEF. According to the MoUs between the Conventions and the GEF, it is clearly a responsibility of the MEA Conferences of the Parties to determine eligibility questions, but it remains unclear when and if these issues will be tackled by the COPs.

- There has been a strong consensus that any PBA system for the GEF must be transparent. Meanwhile, we have been discussing PBA-options that are based on undisclosed and therefore non-transparent data and assessments, such as CPIA and CEPIA who clearly fail the transparency test. Common sense dictates that there can be **no transparency without disclosure**. The disclosure issue must be resolved where it originates, i.e. in the WB, as the GEF will not be able to disclose what cannot be disclosed. The WB has announced that the relevant disclosure issues "may" be resolved by 2006.
- In line with previous Council decisions, it cannot be considered a feasible alternative to have **GEFSEC produce its own data sets and assessments**, including governance assessments, as it would simply be lacking in resources and legitimacy to do so in an acceptable manner.
- Related to this point is the continuing **failure to present any analysis of cost effectiveness and effective costs of the different PBA-options** presented to date, despite persistent Council decisions to do so. Given that PBA as proposed to date offers no efficiency gains (unless we are ready to sacrifice project quality) it is certain that its introduction would lead to a substantial permanent increase in transaction costs. This concern has been amplified by the IFAD-presentation at the Paris Seminar, regarding the resource-intensiveness of their PBA-system. Increases in transaction costs should at least be quantified and -more appropriately- capped before the adoption of any PBA-option is even proposed.
- Given the lack of transparency and a number of methodological weaknesses, it remains unclear what a "low-performing" country under current Options 1 and 2 would have to do to "graduate" to a higher performance category. Even the seemingly straightforward indicator of Project Portfolio Performance is worthless without attribution, i.e. if it is not established why projects and portfolios are performing in any given way. The **absence of clear incentives for low performers** raises fundamental questions about the ultimate objective of PBA in the GEF.
- The actual **percentage of GEF funding to be distributed under the proposed PBA-options continues to be unclear**. Under any ex-ante allocation scheme it would be necessary to ensure the continuing existence of global and regional projects and the small grants program. To prevent undesirable rigidities and unwanted increases in average grant size it would in our view also be necessary to have set-asides for special projects, environmental emergencies, and MSPs. In addition, some are advocating that the resource share for the LDC-group should not decline. How much would in the end be left for actual distribution under ex-ante PBA, given that it will distribute resources for only two of the six focal areas of the GEF? Would it still be worth the trouble and the increased transaction costs? Will the relative resource shares for the GEF focal areas be effectively locked in through PBA? The **operational feasibility** of an ex-ante PBA system in the GEF has clearly not been demonstrated.
- A number of other **unresolved operational issues** could be cited. How would a country's ex-ante allocation be handled in the face of a constrained **commitment authority**, as defined by the Trustee? Would it just be first-come-first serve or would someone have to decide on the sequencing of projects? Who? The treatment of **arrears** and their impact on ex-ante country allocations is also unclear. Last but not least, it is remarkable that we have not heard from the GEF's Implementing Agencies how different PBA options would impact their **project formulation processes**. Do we not want to know?
- The proposed **PBA indicator sets** also continue to raise numerous questions. Would we be assessing, for example, a country's policies in the environment sector or the outcomes of such policies? In the Climate Change focal area it is proposed to rely exclusively on GHG emission levels (the higher the better). Can we really afford to create such a perverse incentive? Why should we use unofficial instead of official data? Here it seems clear that other indicators such as the potential for low emitters to avoid future emissions and energy intensity will also have to be considered. In biodiversity it seems advisable to establish indicators for all components of the ultimate objective of the CBD and to not rely solely on data sets maintained by NGOs.

Conclusion: The establishment of a PBA-system in the GEF continues to be a work in progress that is far from being concluded. We are unable to see how we could responsibly support the adoption of a PBA-decision that leaves the above issues and questions unresolved. The PBA options currently

considered appear as nothing more than a tremendously resource-intensive complication of business-as-usual, based on questionable premises and with high potential for unexpected and undesirable outcomes.

Proposal

As a first step, Council should put a **cap on the cost** for developing/maintaining a PBA system, in absolute or relative terms.

A proposal should then be presented for the establishment of **individual "country potential and performance score-cards"**. These would introduce a uniform standard, to be employed by all IAs and EAs under expanded opportunity, as well as by GEFSEC, for the determination of allocations at project level, i.e. for pipeline entry. From among various options presented, Council would agree on one specific option for country assessments based on the kind of "off-the-shelf" data sets contained in the 9 August 2004 paper, but with clearly identified cost-effectiveness, data intensity, scaling, and relative weighting.

With this, the Swiss Constituency at the GEF is proposing a **performance-based system for the allocation of GEF resources to GEF projects** that can be further refined over time and has the potential to gain broad acceptance among donor and recipient countries.

I hope these comments and suggestions are helpful for the further development of a PBA-system in the GEF.

With best regards



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State Secretary

cc:

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